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UNCLAS HARARE 000179

SIPDIS

SENSITIVE

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
USAID FOR MARJORIE COPSON

E. O. 12958: N/A

TAGS: ETRD EFIN ECON ZI

SUBJECT: A new official exchange rate?

1. (U) Summary: Several industry contacts tell us they believe the Government might adopt a Z\$750-800:US\$1 exchange rate for exporters and perhaps others. Such a move would slow but not arrest Zimbabwe's economic decline. End Summary.

2. (SBU) The most authoritative word comes from Chamber of Mines CEO David Murangari, who has led several mining negotiations with Finance Minister Herbert Murerwa. The Finance Minister has apparently assured besieged miners that their message has gotten through to President Mugabe. Mining companies say they can only stay in operation if allowed to retain more foreign exchange earnings. Under current regulations, they turn over most export revenue to the GOZ for exchange at the official rate of Z\$ 55:US\$1, netting only about 3 percent in market terms. Murangari believes the GOZ will grant exporters a new Z\$750-800:US\$1 exchange rate (they've been lobbying for Z\$1300:US\$1), enough for them to continue producing. This is a blend rate that approximates the GOZ's policy of exchanging half of revenue at the official rate and half at the parallel rate, currently about Z\$1500:US\$1. The GOZ has made it difficult for companies to access the second 50 percent, so the new arrangement would afford a more predictable process.

Comment

3. (SBU) This is potentially welcome news, especially if the devaluation also applies to importers, since it may signal that the GOZ is getting over its ideological squeamishness over devaluation. However, we fear that Finance Minister Murerwa speaks with little real authority on these matters; other advisers, distrustful of private sector motives or profiting from their own rent-seeking schemes, will vet the proposal as well. Second, it will only slow the decline of Zimbabwe's mining sector if the parallel rate remains out of sync with the official rate. Consider the country's gold production:

1999 -	28 tons
2000 -	22
2001 -	18
2002 -	15

In that period, Zimbabwe slipped from third to sixth in Sub-Saharan rankings, behind even Burkina Faso. This is especially unfortunate for a country in a forex crunch, with a highly developed infrastructure and easily capable of 40 tons/year. If the parallel rate remains Z\$1500:US\$1 and Zimbabwean miners operate at Z\$750:\$1, they earn less than their counterparts in other countries, a huge production disincentive. If the exchange rate worsens to Z\$2000-2500:US\$1, the artificial rate of Z\$750:US\$1 provides scant relief. Only by recognizing and exploiting the market rate of Z\$1500:US\$1 can the GOZ guarantee a boost in exports and forex inflows.

Sullivan